

Washington State Auditor's Office

Audit Report

Audit Services

Report No. 5748

HEALTH CARE AUTHORITY

Agency No. 107

July 1, 1995 Through June 30, 1996

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Overview

We performed the statewide single audit of the state of Washington for the fiscal year ended June 30, 1996. In accordance with the Single Audit Act of 1984, we audited the state as an entity, rather than each agency separately. The results of this audit will be published in a statewide single audit report which includes the following:

- An opinion on the financial statements.
- A report on internal control structure-related matters based solely on an assessment of control risk made as part of the audit of the financial statements.
- A report on compliance with laws and regulations that may have a material effect on the financial statements.
- An opinion on supplementary Schedule of Federal Financial Assistance.
- A report on internal controls over federal financial assistance.
- An opinion on compliance with specific requirements applicable to major federal financial assistance programs.
- A report on compliance with general requirements applicable to federal financial assistance programs.
- A report on compliance with laws and regulations applicable to nonmajor federal financial assistance program transactions tested.
- A Schedule of Findings and Schedule of Questioned Costs.

The work performed at the Health Care Authority included procedures to satisfy the requirements of the 1996 statewide single audit and supplemental reviews and tests deemed necessary in the circumstances.

There was a finding, which is listed in the Schedule of Findings following this Overview, for the Health Care Authority.

Brian Sonntag
State Auditor

November 27, 1996

HEALTH CARE AUTHORITY
Agency No. 107
July 1, 1995 Through June 30, 1996

Schedule Of Findings

1. The Health Care Authority (HCA) Should Establish Controls Over Fixed Assets

We identified the following deficiencies in the HCA's internal controls for fixed assets. These deficiencies increased the agency's susceptibility to loss due to theft.

- a. An adequate division of duties between purchasing and receiving of assets was not consistently maintained.
- b. Agency policy regarding tagging of computer equipment (for identification and control purposes) is not consistent with the Office of Financial Management's (OFM) policy. Agency policy requires tagging "... after it is unpacked, set-up, and ready for delivery by Information Services"; OFM policy requires tagging immediately upon receipt and acceptance.
- c. An inventory conducted in accordance with OFM's guidance has not been performed since fiscal year 1993.

OFM's *State of Washington Policies, Regulations, and Procedures* manual explains requirements for division of duties at 6.1.1.2.4 b. (1):

Division of Duties - Whenever possible, no individual is to have complete control over any type of asset in any agency, department, or division of the state. The work of employees handling public assets should be complimentary to or checked by other employees. This will not only decrease the chance of loss by means of fraud or dishonesty, but will also provide a means to detect errors.

At OFM 3.1.2.2.2, the manual states:

Immediately, upon receipt and acceptance, all inventoriable fixed assets of the state are to be marked in such a manner as to identify that the property belongs to the state of Washington and to the responsible agency.

In addition, at OFM 3.1.2.2.11, the manual requires that:

Agencies are to initiate and document an inventory program to ensure that every inventoriable fixed asset is subject to a physical count or verification every two years.

HCA's failure to establish adequate controls to ensure compliance with state regulations related to fixed assets left the agency vulnerable to employee errors and theft. In addition,

the weaknesses would have inhibited management's ability to promptly detect and stop theft if it had occurred.

The first two conditions existed because employees performing the procedures, and their supervisors and managers, did not understand the importance of these controls to deter errors and irregularities.

A physical inventory was not performed within the past two years because subsequent to experiencing difficulties recruiting personnel to perform the inventory during the summer of 1996, management chose to delay the procedure until summer 1997.

These internal control deficiencies were brought to management's attention during the course of the audit. The agency responded by immediately performing a thorough internal audit to further identify areas for improvement in the fixed asset procedures. Management has expressed its intention to use the results of the audit to provide a basis for development of policies and procedures that will strengthen fixed asset accountability.

We recommend that agency management continue current efforts to self-evaluate and strengthen controls over fixed asset accountability.

We also recommend that agency management emphasize to employees the importance of division of duties between purchasing and receiving assets. This should be reinforced through monitoring to ensure that division of duties is maintained.

We further recommend that agency management revise their policy related to tagging of computer equipment to ensure that assets are identified and tracked as soon as reasonably possible subsequent to receipt.

Finally, we recommend that a complete physical inventory of all assets be completed and reconciled to the accounting records in accordance with OFM requirements prior to the end of the current fiscal year. Subsequently, management should enforce policies requiring physical inventories at least every two years.

Auditee's Response

The HCA had identified the need to improve controls related to fixed assets prior to the State Auditor's audit. We are now well underway in developing needed controls and will have addressed all of the conditions referenced in the finding including completion of a physical inventory by fiscal year end. The audit finding and the agency's internal audit report will be used as reference guides to assure that the HCA is in compliance with the Office of Financial Management's (OFM) standards by June 30, 1997.

Auditor's Concluding Remarks

We appreciate the agency's timely response and commitment to resolution of these issues and thank the agency staff for their cooperation and assistance during the audit. We will review the resolution of these issues during the course of our next audit.